



Financial Results Quarter 1, Fiscal Year 2012 & Plan to Profitability

February 2012



Financial Results: Quarter

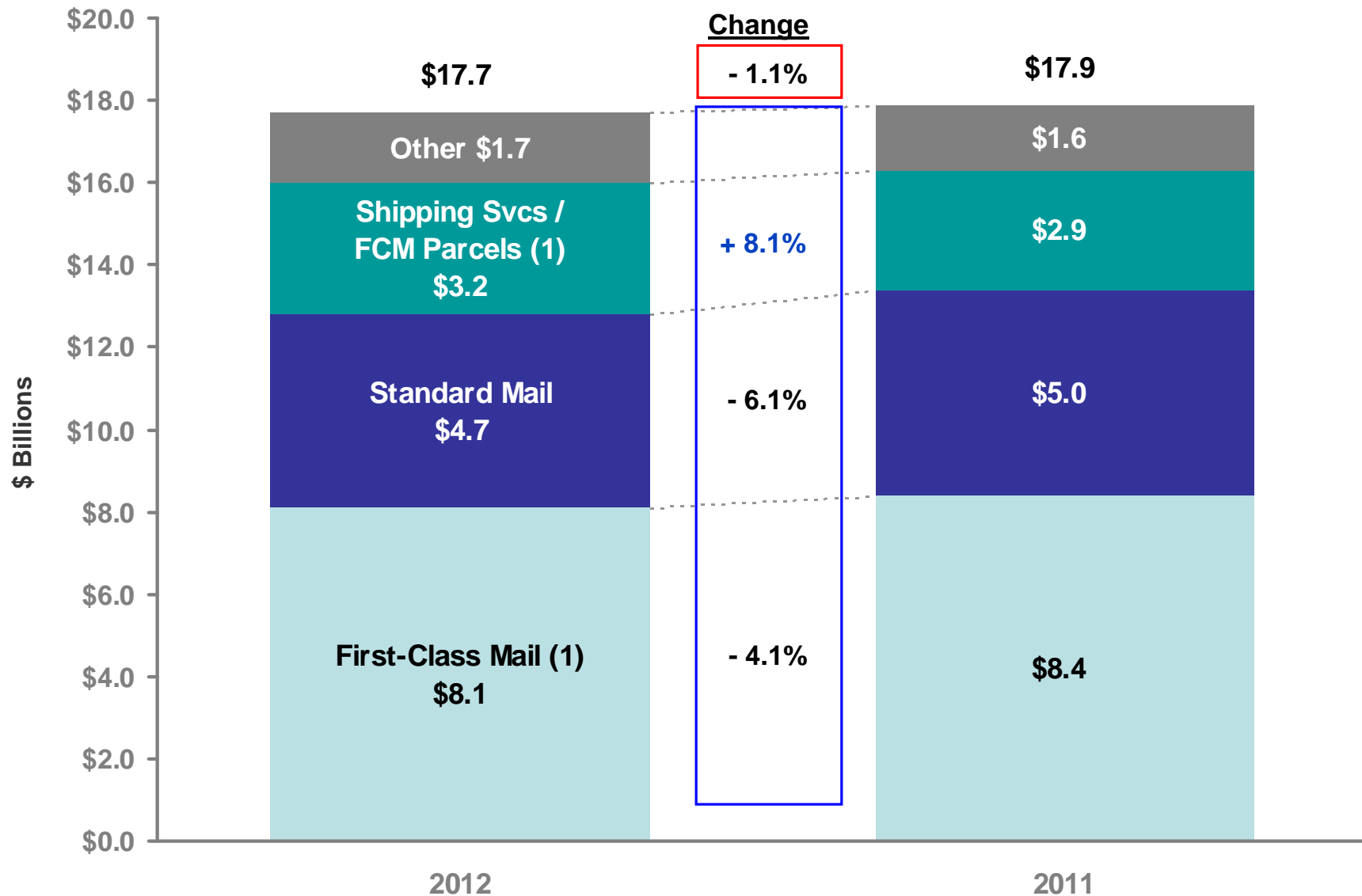
Quarter 1 (Billions)	FY 2012	FY 2011
Revenue	\$17.7	\$17.9
Expenses	<u>17.5</u>	<u>17.6</u>
Operating Income (Loss)*	0.2	0.3
Retiree Hlth. Bfts. Pre-Funding**	(3.1)	(1.4)
Workers' Comp. Fair Value Adj.	(0.1)	0.9
Workers' Comp. Claims & Adj.	<u>(0.3)</u>	<u>(0.1)</u>
Net Income (Loss)	<u>(\$3.3)</u>	<u>(\$0.3)</u>
Volume (pieces)	43.7	46.5

* Before RHB Pre-Funding & Non-Cash Adjustments to Workers' Compensation Liabilities.

** RHB Pre-Funding: IFP expensing \$11.1B in 2012 evenly over 12 mos (\$925M / month). Actual results based on \$5.5B (old 2011 payment) being expensed over 10 mos to revised due date of Aug 1 and \$5.6B (2012 payment) being expensed over 12 mos to due date of Sep 30.



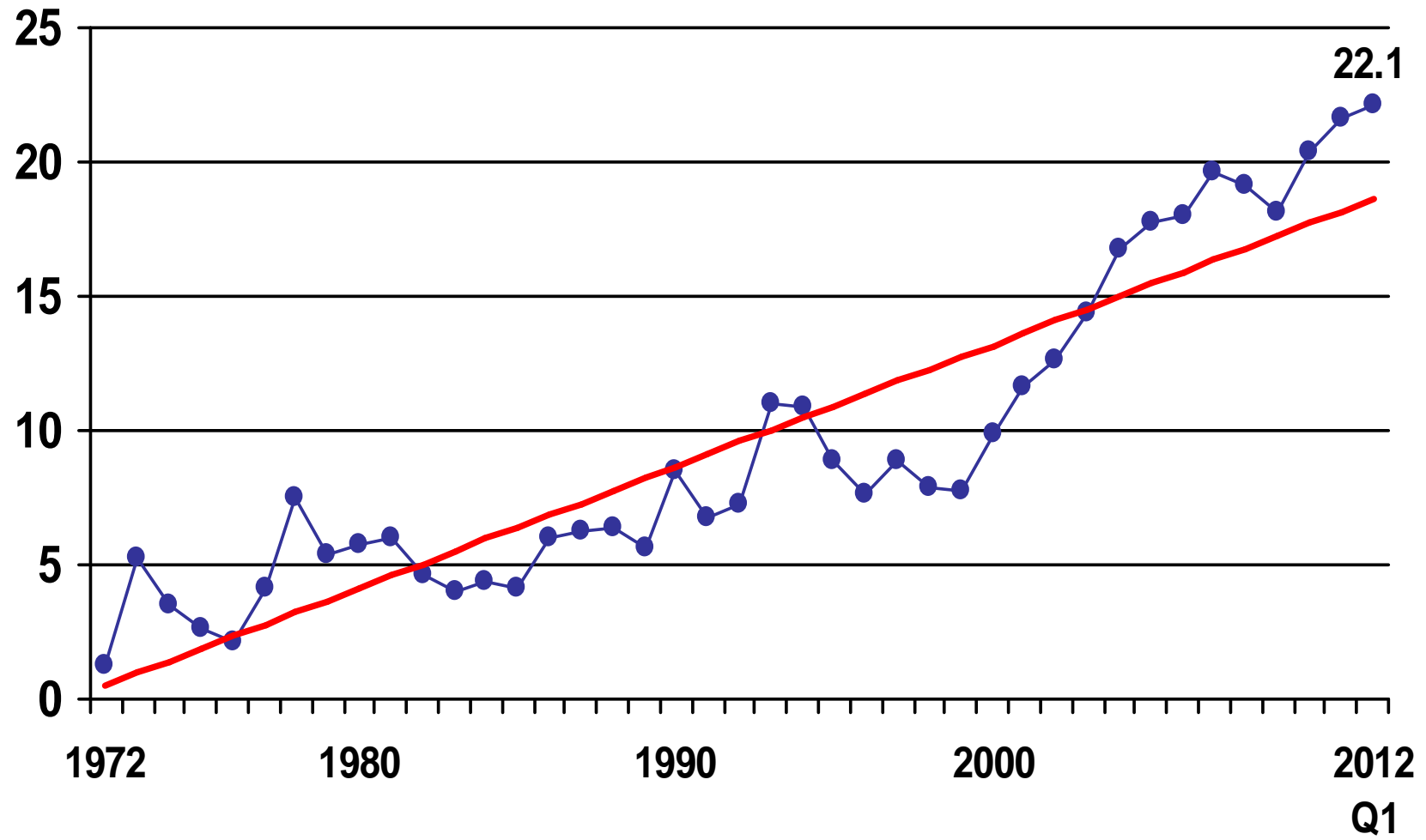
Total Revenue: Q1 2012 and 2011





Postal Service is More Efficient Than Ever

Total Factor Productivity





Financial Results: Quarter

Quarter 1 (Billions)	FY 2012	FY 2011
Revenue	\$17.7	\$17.9
Expenses	<u>17.5</u>	<u>17.6</u>
Operating Income (Loss)*	0.2	0.3
Retiree Hlth. Bfts. Pre-Funding**	(3.1)	(1.4)
Workers' Comp. Fair Value Adj.	(0.1)	0.9
Workers' Comp. Claims & Adj.	<u>(0.3)</u>	<u>(0.1)</u>
Net Income (Loss)	<u>(\$3.3)</u>	<u>(\$0.3)</u>
Volume (pieces)	43.7	46.5

* Before RHB Pre-Funding & Non-Cash Adjustments to Workers' Compensation Liabilities.

** RHB Pre-Funding: IFP expensing \$11.1B in 2012 evenly over 12 mos (\$925M / month). Actual results based on \$5.5B (old 2011 payment) being expensed over 10 mos to revised due date of Aug 1 and \$5.6B (2012 payment) being expensed over 12 mos to due date of Sep 30.



Operating Expenses

Quarter 1	FY	FY
(Billions)	2012	2011
Compensation	\$ 9.6	\$ 9.7
Benefits	3.8	3.8
Transportation	1.8	1.7
Depreciation	0.6	0.6
Supplies & Services	0.5	0.6
Rent, Utilities & Other	1.2	1.2
Operating Expenses *	\$17.5	\$17.6

* Before RHB Pre-Funding, Non-Cash Adjustments to Workers' Compensation Liabilities.



Financial Results: Quarter

Quarter 1 (Billions)	FY 2012	FY 2011
Revenue	\$17.7	\$17.9
Expenses	<u>17.5</u>	<u>17.6</u>
Operating Income (Loss)*	0.2	0.3
Retiree Hlth. Bfts. Pre-Funding**	(3.1)	(1.4)
Workers' Comp. Fair Value Adj.	(0.1)	0.9
Workers' Comp. Claims & Adj.	<u>(0.3)</u>	<u>(0.1)</u>
Net Income (Loss)	<u>(\$3.3)</u>	<u>(\$0.3)</u>
Volume (pieces)	43.7	46.5

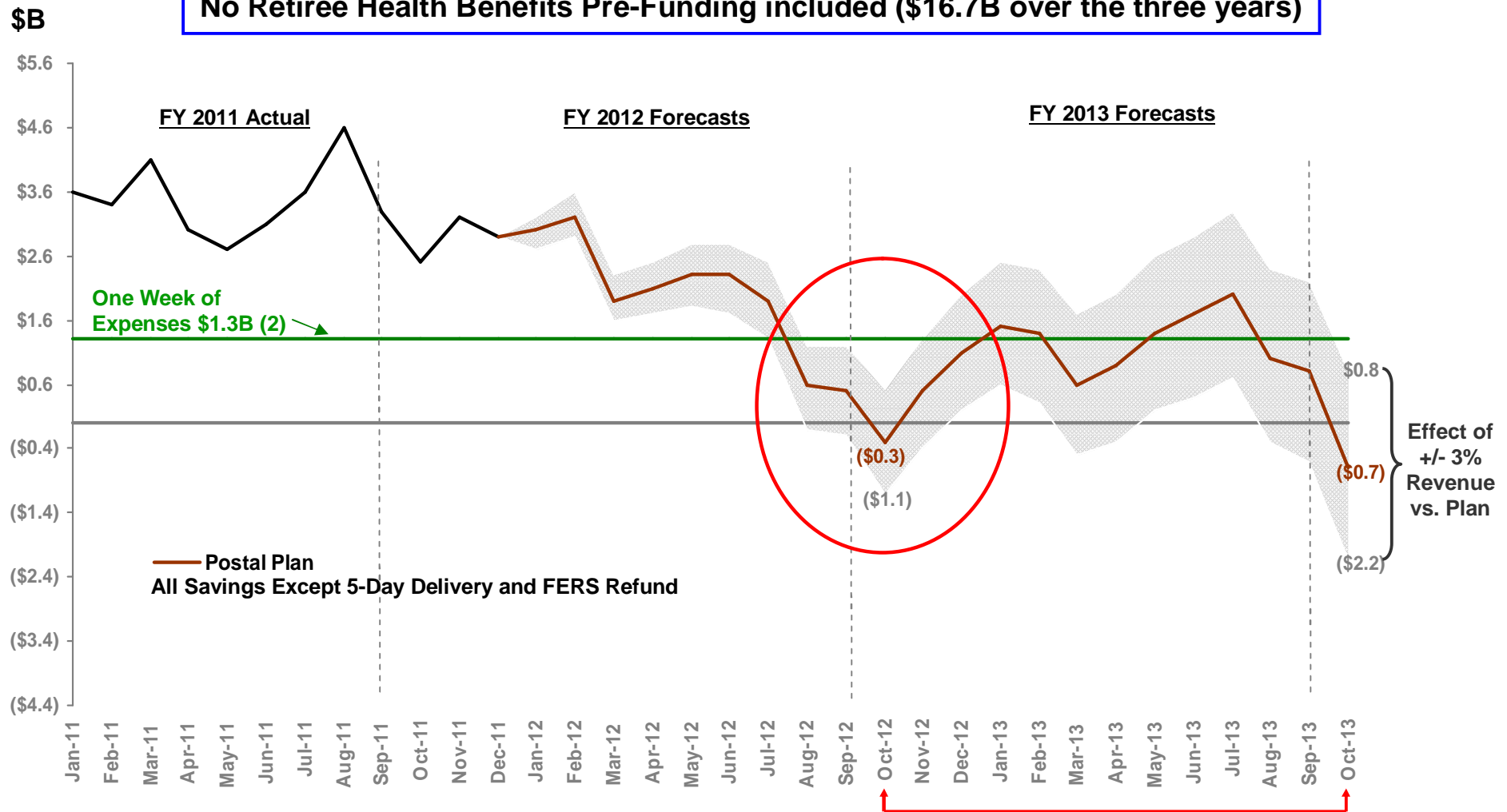
* Before RHB Pre-Funding & Non-Cash Adjustments to Workers' Compensation Liabilities.

** RHB Pre-Funding: IFP expensing \$11.1B in 2012 evenly over 12 mos (\$925M / month). Actual results based on \$5.5B (old 2011 payment) being expensed over 10 mos to revised due date of Aug 1 and \$5.6B (2012 payment) being expensed over 12 mos to due date of Sep 30.



2012 and 2013 Liquidity Forecasts

No Retiree Health Benefits Pre-Funding included (\$16.7B over the three years)



Notes: Liquidity includes unrestricted cash plus available borrowing, up to \$15B limit

(1) Liquidity at December 31, 2011: \$2.9B

(2) Represents \$220M of daily operating costs, times six day work week

Plan to Profitability

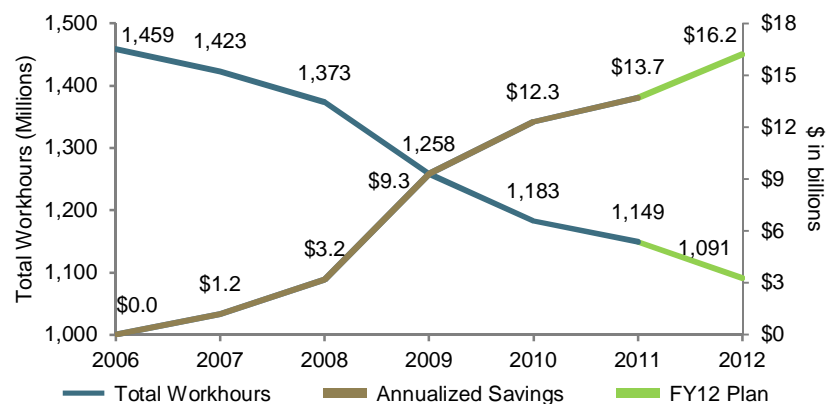
5-Year Business Plan

February 2012

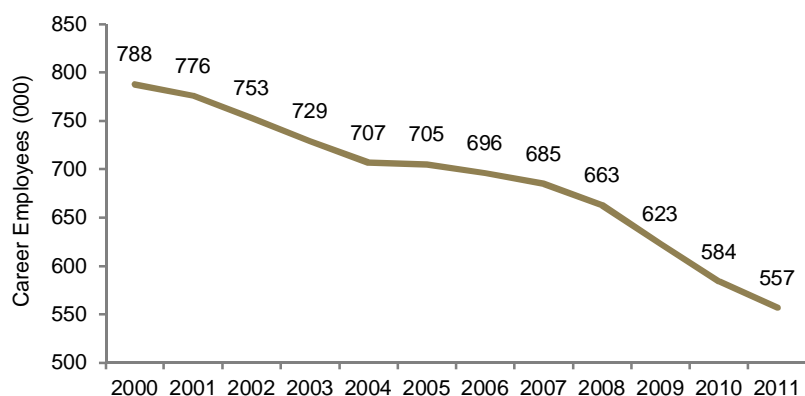
Platform for Returning to Profitability: A Culture of Efficiency

- ❑ U. S. Postal Service ranked the best postal service within the world's top 20 largest economies...⁽¹⁾
- ❑ Delivers 200% more efficiently than the nearest Post
- ❑ Delivers 500% more efficiently than Deutsche Post (#5 Post in the world)

Annualized Savings vs. Workhours

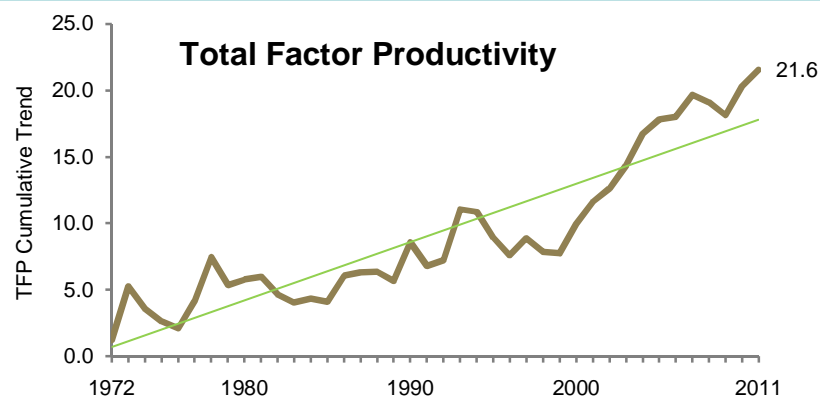


Career Employees



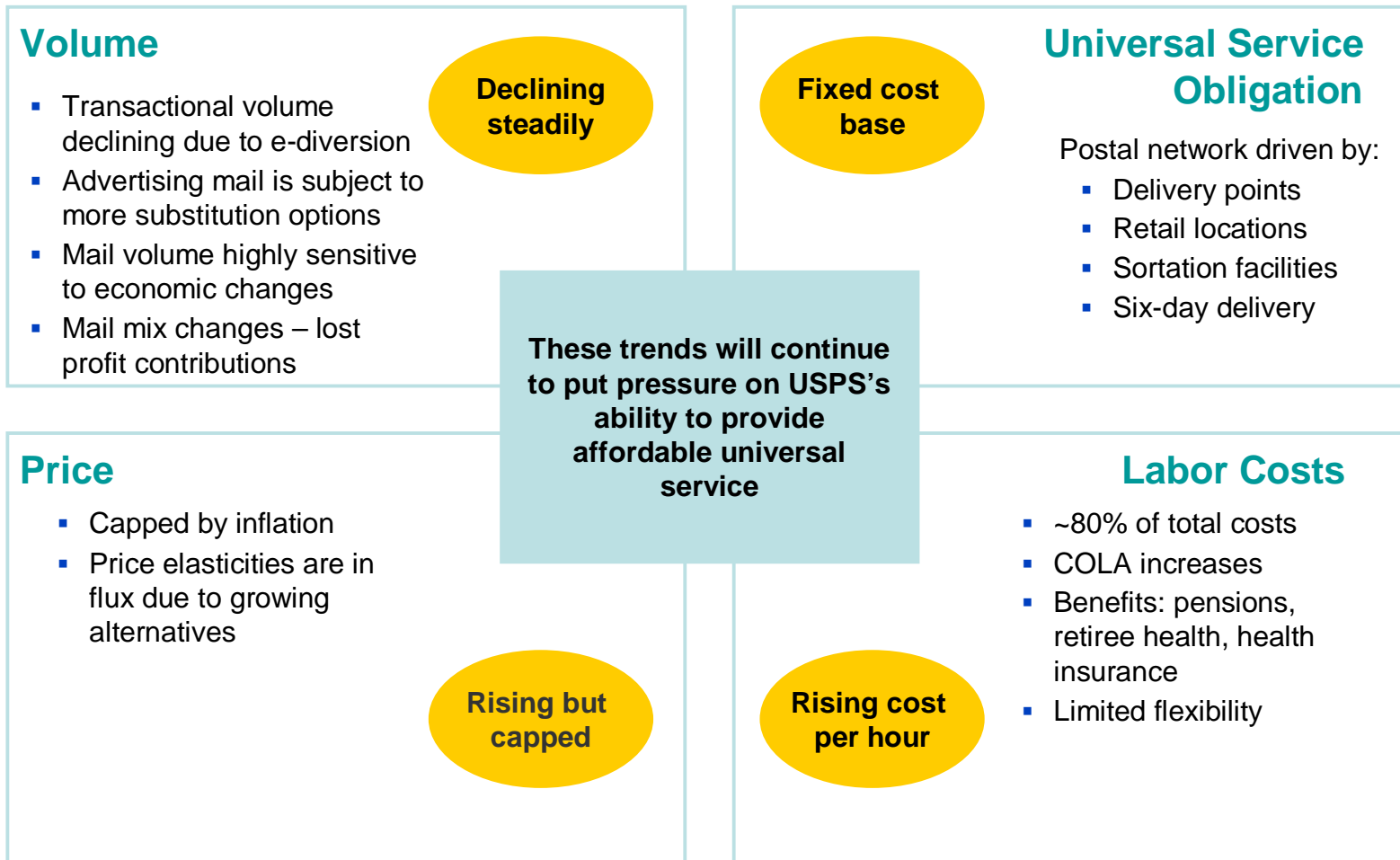
(1) Oxford Strategic Consulting report issued December 15, 2011

Postal Service is More Efficient Than Ever





Multiple Factors Contributing to the Problem at USPS





Plan Objectives

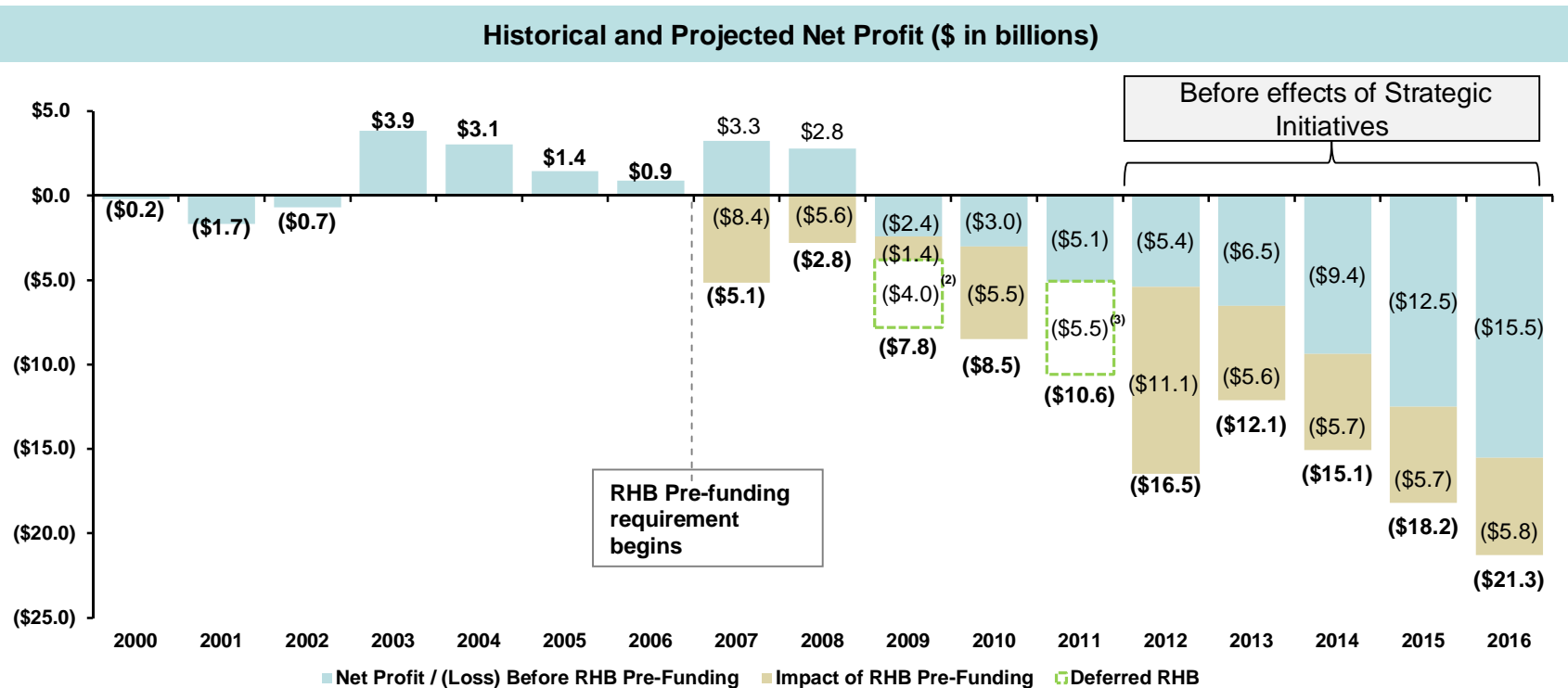
USPS's Plan is based upon several key principles that benefit all stakeholders

- ☐ Preserve mission to provide secure, reliable and affordable universal delivery service
- ☐ Further economic growth and enhance commerce
- ☐ Implement comprehensive transformation for a long-term sustainable financial future
- ☐ Protect US taxpayers (Federal funding and appropriations avoidance)
- ☐ Fairness to employees and customers



USPS Is Incurring Unsustainable Losses

- ❑ USPS's financial losses are at unsustainable levels
- ❑ Declines in revenue are being driven by lower First-Class Mail volumes (down 25% since peaking in 2006)
- ❑ Reduced volumes are, in turn, reducing density and contribution⁽¹⁾ across the USPS network



Note: Bolded figures after 2007 represent Net Profit / (Loss) after RHB Pre-Funding

(1) Contribution is revenue less attributable cost as shown in the Cost & Revenue Analysis for fiscal year 2011 that was filed with the Postal Regulatory Commission ("PRC")

(2) In 2009, \$4.0bn of RHB Pre-Funding was deferred and will be re-evaluated in 2017

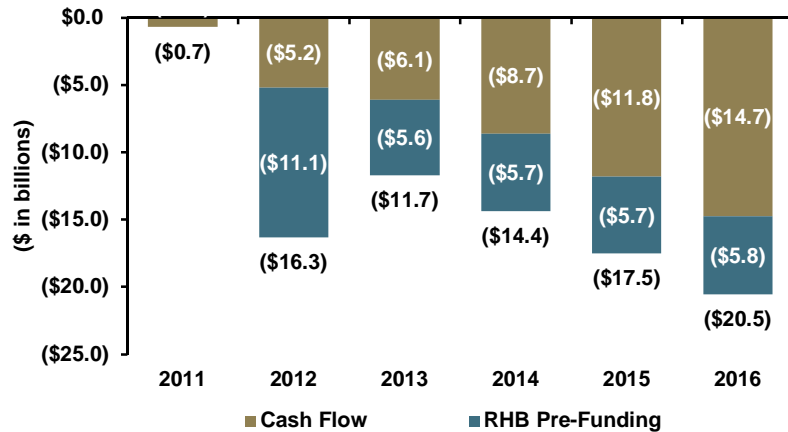
(3) In September 2011, Congress deferred the 2011 required RHB payment of \$5.5bn until August 2012

Confidential/Proprietary – For Discussion Purposes Only – Preliminary & Subject to Change

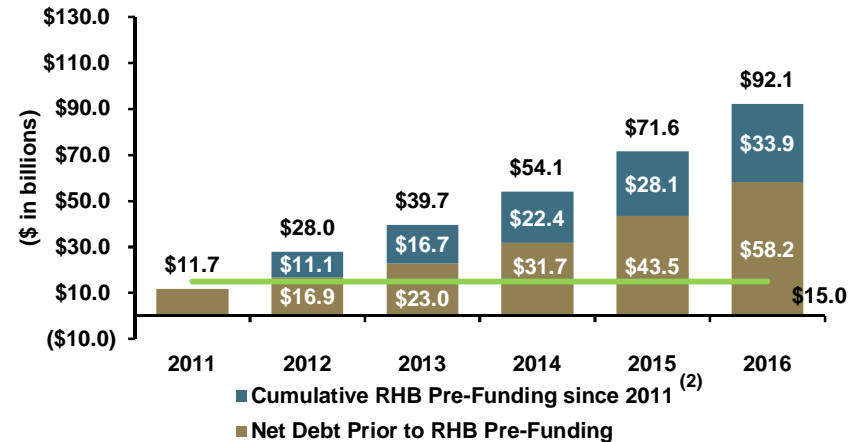


Magnitude and Timing of Cash Flows Requires a Near-Term Response

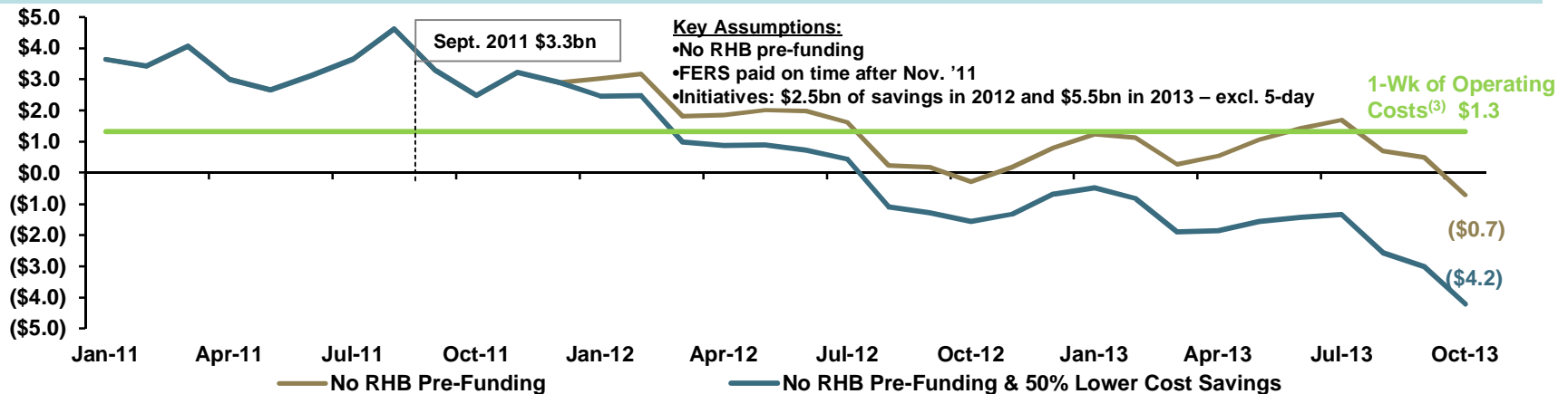
Projected Cash Flow⁽¹⁾ (before Strategic Initiatives)



Projected Net Debt (before Strategic Initiatives)



Near-Term Liquidity (\$ in billions)



Note: Liquidity at end December 2011 \$2.9bn

(1) Total cash flows prior to any borrowings or principal repayments of debt

(2) \$38bn of RHB Pre-Funding before 2011 not reflected in chart

(3) Represents \$220mm of daily operating costs, times six day work week

Confidential/Proprietary – For Discussion Purposes Only – Preliminary & Subject to Change

February 9, 2012



Executing on Identified Initiatives Is Core to Addressing USPS's Financial Challenges

- ❑ **USPS has identified over \$20 billion of annual savings within the next five years, of which approximately \$10 billion require legislative action**
- ❑ **Each of the Strategic Initiatives is essential in order to restore the Postal Service to financial viability**

Key Items for Consideration

Significant Portion of Savings from Healthcare

- ❑ USPS-sponsored insurance is significantly more cost effective and yields equivalent or better coverage for the vast majority of annuitants and current employees
- ❑ The Postal Service projects over \$7 billion of annual savings from the adoption a new USPS-administered healthcare program (including elimination of prefunding and transfer of retirees into USPS Plan)⁽¹⁾
 - RHB Pre-Funding elimination of ~\$5.5bn annually plus reduced healthcare costs of ~\$1.5bn annually

Address Reduced Network Density

- ❑ Network costs are fixed and too high relative to mail volumes and reduced density
 - USPS needs flexibility as well as cost reduction
- ❑ Better align network size with volumes
 - Facilities need to be re-evaluated and streamlined/consolidated
 - Local Post Office cost reductions
- ❑ Service levels must be addressed
 - 6 → 5 day delivery
 - Modify overnight service standard for First-Class Mail
 - Facilitates network optimization

Revenue Management

- ❑ Targeted price increases
 - Historically inelastic single-piece First-Class Mail
 - Careful changes to Standard (Bulk) Mail pricing regime
 - Pending exigent case could secure moderate price increase; PRC must approve
- ❑ Legislative change allowing single-piece First-Class Mail stamp to increase to \$0.50 could yield approximately \$1bn of incremental Contribution
- ❑ Advertising is highly ROI-focused and sensitive
 - Pursuit of marketing initiatives which are consistent with the core competencies of USPS

(1) Annual savings amount includes projected savings resulting from the elimination of approximately \$6bn in annual RHB pre-funding

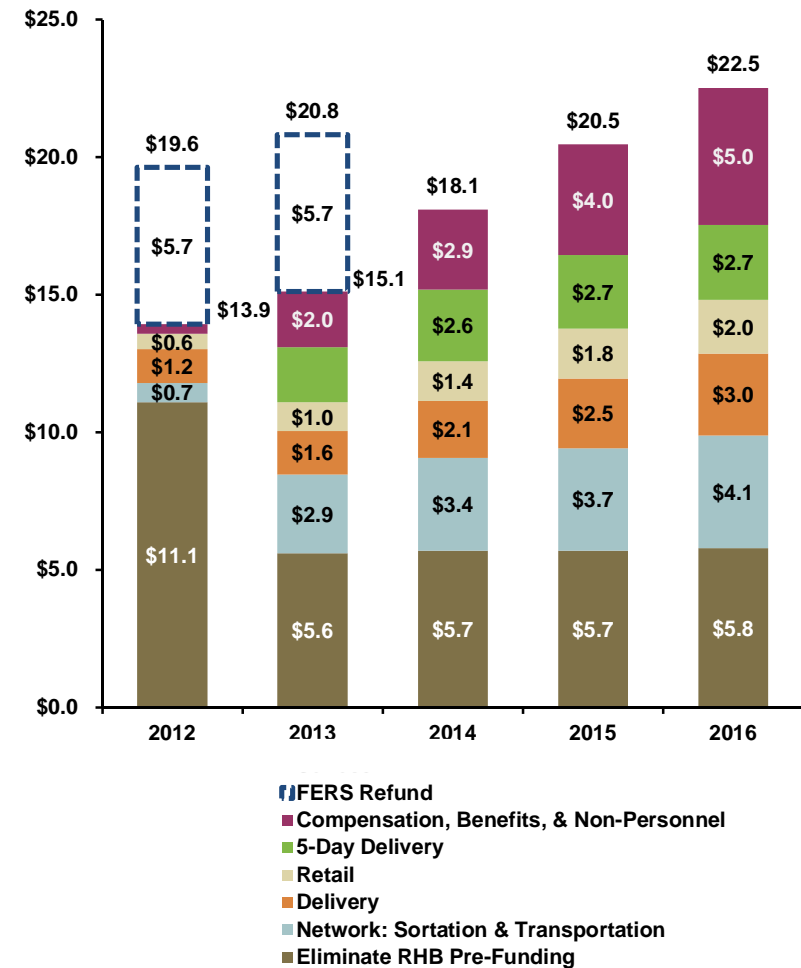


Strategic Initiatives

USPS Strategic Initiatives (\$ in billions)

	Annual Run- Rate Savings in 2016
Legislative Initiatives	
RHB Pre-Funding Resolved	\$5.8
Five-Day Delivery	2.7
Total Legislative Initiatives	\$8.5
Operational Initiatives	
Network: Sortation & Transportation	\$4.1
Retail	2.0
Delivery	3.0
Total Operational Initiatives	\$9.0
Compensation, Benefits & Non-Personnel⁽¹⁾	\$5.0
Total Potential Savings⁽²⁾	\$22.5
	Savings in 2012 / 2013
FERS Refund	\$11.4

Savings⁽²⁾ by Strategic Initiative (\$ in billions)



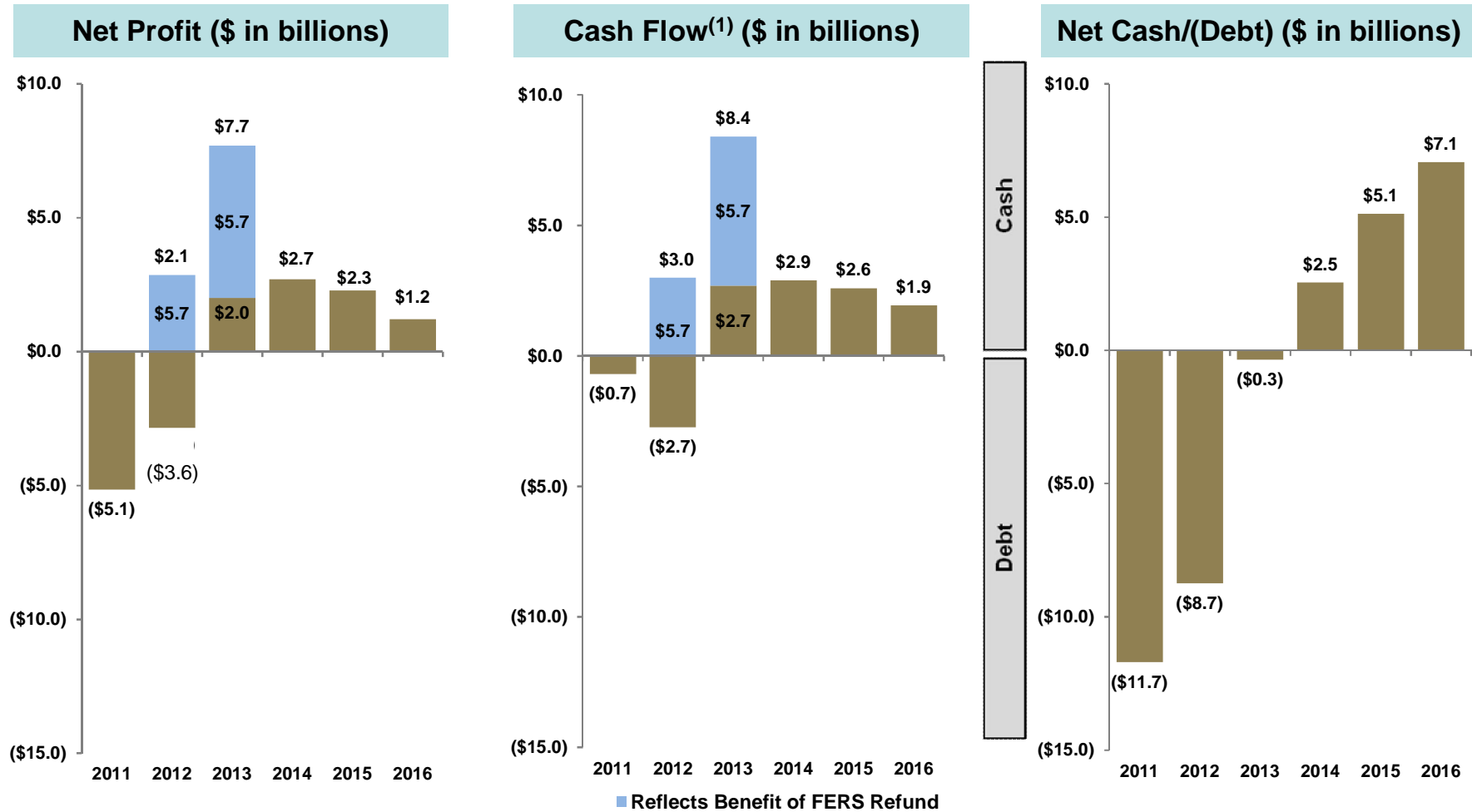
(1) Portion of savings requires legislative changes to achieve

(2) Does not include impact of employee separation costs



Projections after Strategic Initiatives

Achieving the Business Plan requires full realization of all the Strategic Initiatives



(1) Total cash flows prior to any borrowings or principal repayments of debt

Confidential/Proprietary – For Discussion Purposes Only – Preliminary & Subject to Change

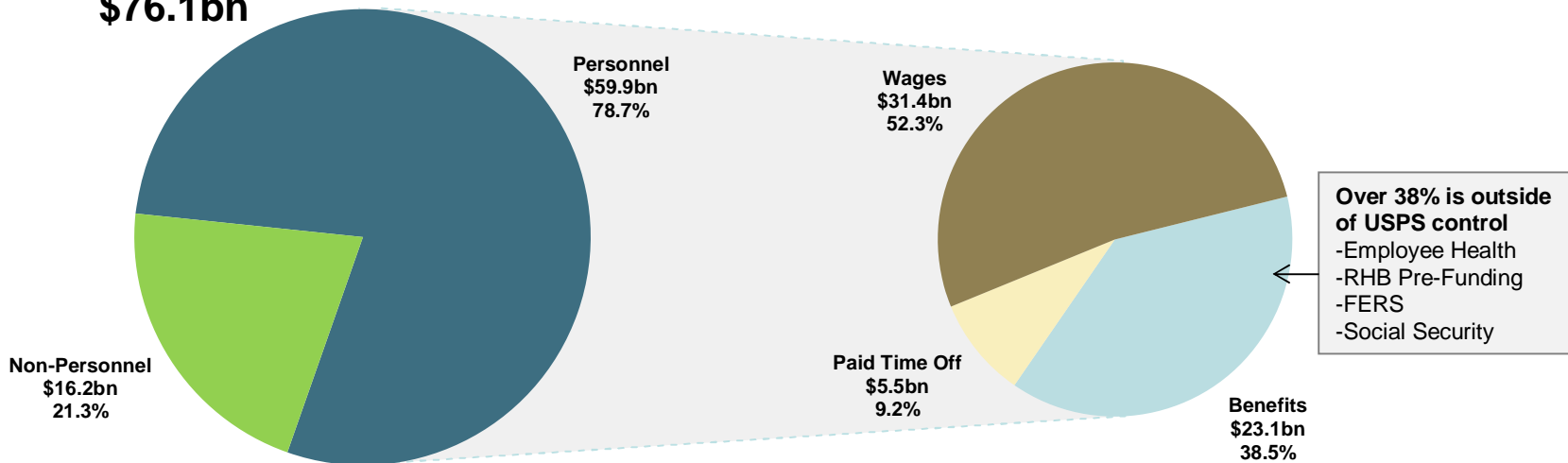
February 9, 2012



Baseline 2011 Costs

Baseline 2011 Costs (Inclusive of \$5.5 billion of RHB Pre-Funding) ⁽¹⁾

Total Expenses
\$76.1bn



(1) Although the \$5.5bn payment was deferred until August 2012, it is still part of total USPS costs and must be addressed



Efficient Administration of Healthcare Benefits Drive Savings

Issues Confronting the Existing System

- ❑ Postal Service does not control its health care benefit program
- ❑ Current federal programs exceed private sector comparability standard in terms of cost and coverage
- ❑ Current programs do not align benefit value with cost or reflect USPS demographics

USPS Solutions

- ❑ Create three distinct categories of participants – annuitants, current employees, new hires
- ❑ Tiered program appropriate to needs of each category
- ❑ Adopt best practices in private sector – PBM, wellness
- ❑ Maintain benefit choices with consistent alignment between value and cost
- ❑ Simplify plan structure, self insure
- ❑ Establish incentives for Medicare eligibles to fully participate in Medicare benefits

	Current System	New USPS Plan
Retiree Health Benefit Prefunding	\$5.6bn	\$0.0bn
Health Benefit Premium for Actives	\$4.4bn	\$3.7bn
Retiree Health Benefit Premiums	\$3.2bn	\$2.5bn
Total Cost	\$13.2bn	\$6.2bn



Income Statement

(\$ in billions)

	Actual					Projected				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Revenue	\$74.8	\$74.9	\$68.1	\$67.1	\$65.7	\$64.0	\$63.4	\$62.7	\$62.0	\$61.6
% Growth		0.2%	(9.1%)	(1.5%)	(2.0%)	(2.6%)	(0.9%)	(1.2%)	(1.1%)	(0.7%)
Operating Expense (Before Initiatives)	\$71.6	\$72.1	\$70.4	\$69.9	\$70.6	\$69.3	\$69.7	\$71.6	\$73.1	\$74.8
Interest Expense	-	-	0.1	0.1	0.1	0.2	0.2	0.4	1.4	2.3
Operating Income (Before Initiatives)	\$3.2	\$2.8	(\$2.4)	(\$3.0)	(\$5.1)	(\$5.4)	(\$6.5)	(\$9.4)	(\$12.5)	(\$15.5)
RHB Pre-Funding	8.4	5.6	1.4	5.5	-	11.1	5.6	5.7	5.7	5.8
Net Income/(Loss) (Before Initiatives)	(\$5.1)	(\$2.8)	(\$3.8)	(\$8.5)	(\$5.1)	(\$16.5)	(\$12.1)	(\$15.1)	(\$18.2)	(\$21.3)
% of Total Revenue	(6.9%)	(3.7%)	(5.6%)	(12.7%)	(7.7%)	(25.8%)	(19.1%)	(24.0%)	(29.3%)	(34.6%)
Legislative Initiatives										
Resolve RHB Pre-Funding						\$11.1	\$5.6	\$5.7	\$5.7	\$5.8
FERS Refund						5.7	5.7	0.0	0.0	0.0
5-Day Delivery						0.0	2.0	2.6	2.7	2.7
Total Legislative Initiatives						\$16.8	\$13.3	\$8.3	\$8.4	\$8.5
Operational Initiatives										
Network: Sortation & Transportation						\$0.7	\$2.9	\$3.4	\$3.7	\$4.1
Retail						0.6	1.0	1.4	1.8	2.0
Delivery						1.2	1.6	2.1	2.5	3.0
Total Operational Initiatives						\$2.5	\$5.5	\$6.9	\$8.1	\$9.0
Comp & Benefits and Non-Personnel Initiatives⁽¹⁾						\$0.4	\$2.0	\$2.9	\$4.0	\$5.0
Total Contribution from Strategic Initiatives						\$19.6	\$20.8	\$18.1	\$20.5	\$22.5
Unit Separation Costs ⁽²⁾						(1.0)	(1.0)	(0.3)	0.0	0.0
Revised Operating Expenses						\$61.9	\$55.7	\$59.9	\$59.7	\$60.4
Revised Net Income/(Loss)						\$2.1	\$7.7	\$2.7	\$2.3	\$1.2
% of Total Revenue						3.3%	12.1%	4.3%	3.7%	2.0%

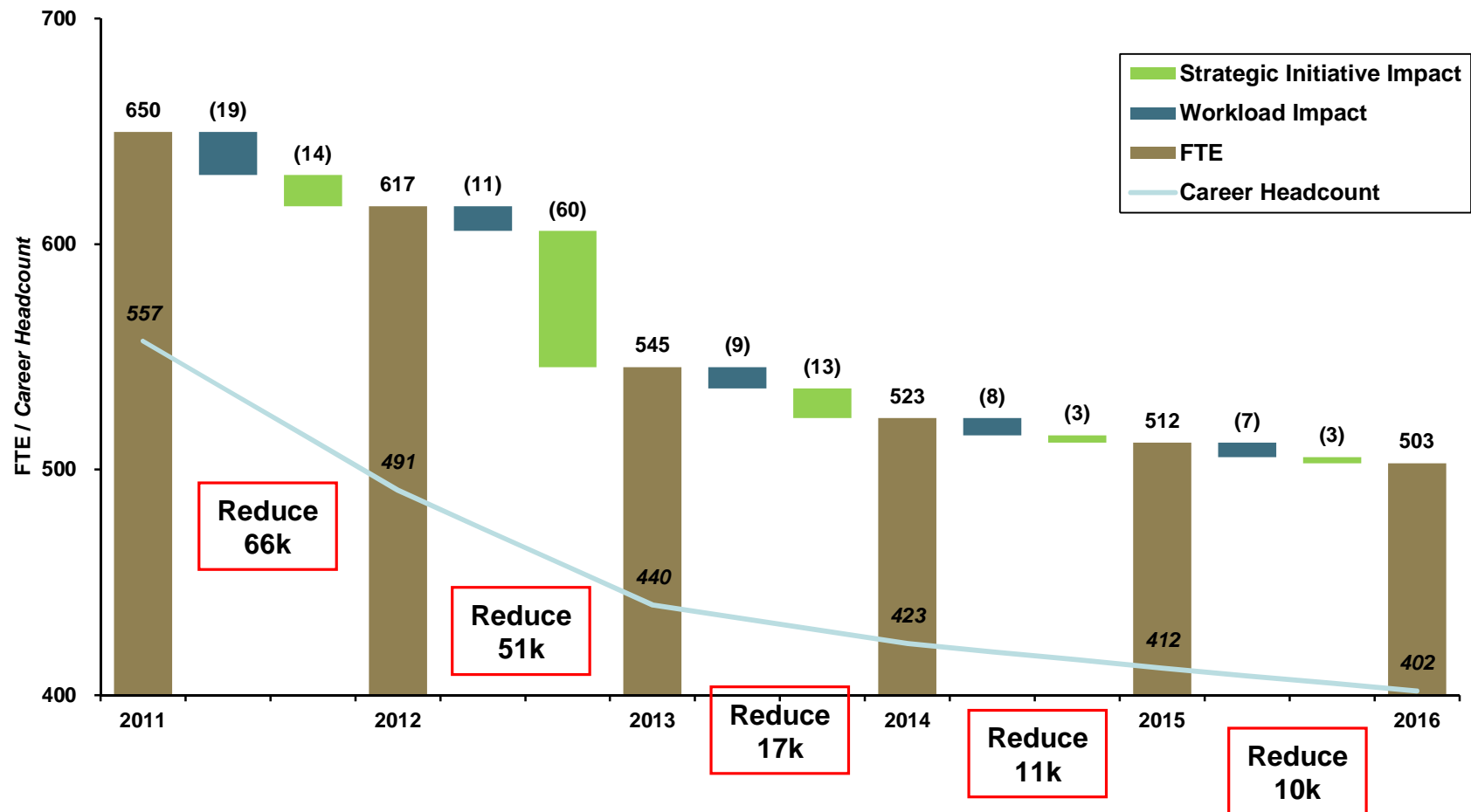
(1) Portion of these savings require legislative changes to achieve

(2) Reflects the one-time costs of any collection of layoffs/RIF's, VERA, and reassignments



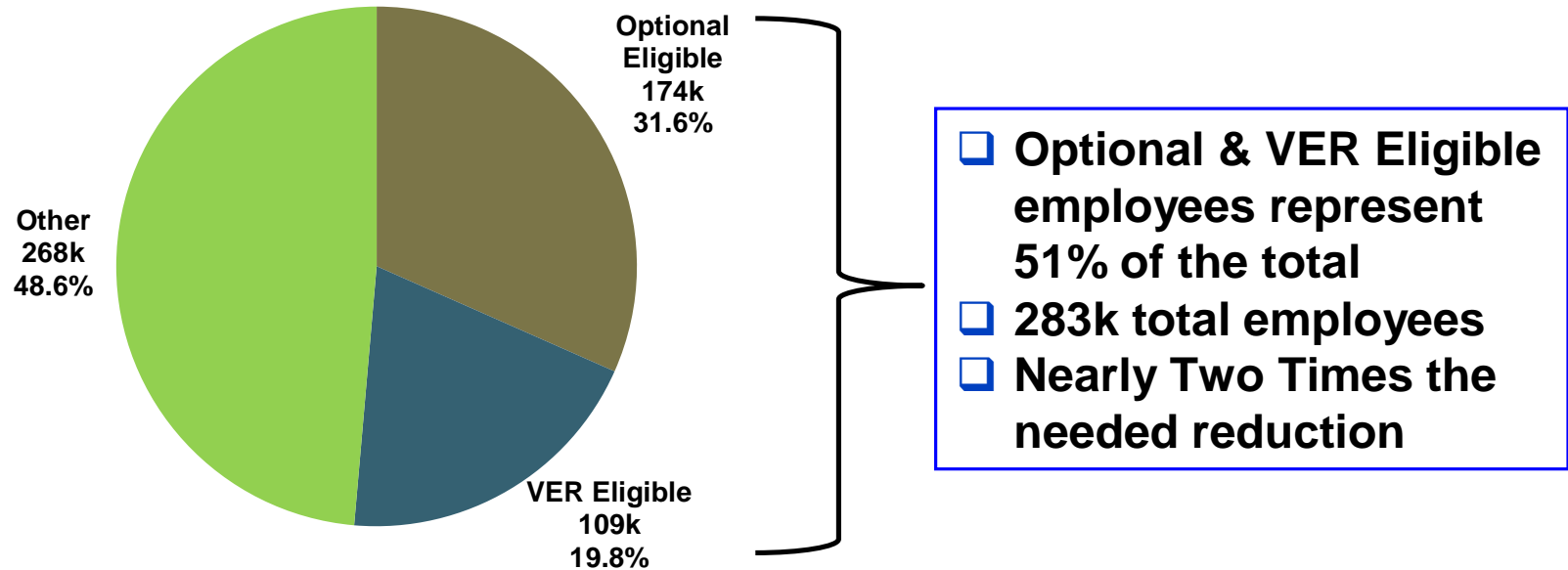
Initiatives will Reduce Workload and Staffing Needs

The Postal Service projects a FTE reduction of ~150K by 2016 in connection with the Strategic Initiatives





Potential Soft Landing for Employees



551k Total Complement

	Complement	% Eligible	Average Age	Annual Take Home		% of
				Current Pay	Retirement	Current Pay
FERS						
Optional	468,979	24.8%	64	\$41,613	\$27,576	66.3%
VER	468,979	18.4%	54	41,830	24,463 ⁽¹⁾	58.5%
CSRS						
Optional	81,576	70.9%	61	\$44,996	\$30,558	67.9%
VER	81,576	27.8%	54	45,030	24,845	55.2%
Total Incented Retirement	550,555	51.4%	59	\$42,209	\$26,269	62.2%

(1) Includes estimated Social Security and TSP impacts for FERS



Key Takeaways

- ❑ The challenges facing USPS are consistent with those facing posts globally
 - Declines of high contribution First-Class Mail
 - While identified revenue initiatives are significant, they are insufficient to stem operating losses and do not address the loss of network density
- ❑ The Postal Service's solution is to implement the 5-Year Plan to Profitability
 - Re-structure the USPS network
 - Achieve requisite legislative changes
 - Realize efficiencies by adopting the USPS healthcare program
 - Utilize attrition to engineer a soft landing
- ❑ The Plan enables the USPS and all of its stakeholders to:
 - Preserve the Postal Service's mission to provide secure, reliable and affordable universal delivery service
 - Make the Postal Service economically self-sustaining
 - Transform the Company through equitable sharing of restructuring costs amongst both employees and customers